

# Manual for Federal Grants Monitoring

## 1. Purpose

The Vermont Department of Education receives and distributes funds for federal programs that support Vermont's education system and that require state administration. As a condition for receipt of these funds, the department must allocate these funds according to the requirements of each specific federal grant, review and approve applications for these funds from eligible recipients, and ensure compliance with federal regulations for uses of these funds.

Different teams within the department administer federal grants – developing a state plan to respond to purposes of the grants, allocating of funds to recipients, reviewing and approving of local plans, and providing technical assistance in achieving the purpose of these grants – based on the areas of their program responsibility. The Finance and Management Team provides the fiscal oversight for these grants to ensure that schools and organizations (sub-recipients) that receive these funds comply with federal requirements governing uses of funds.

The department's fiscal monitoring is part of this system of fiscal oversight. The first tier of oversight is to collect, review, and, if necessary, act on the findings of the Single Audit required of sub-recipients who are awarded \$500,000 or more of federal funds by the department. Fiscal monitoring is the second tier of oversight. Its purposes are:

- To monitor sub-recipients' programs, especially those not covered by the Single Audit, to ensure compliance
- To identify and help resolve compliance problems surrounding sub-recipient's current uses of funds in order to avoid audit findings and possible penalties after the end of the fiscal year.

The procedures described in this manual are designed to test whether grant funds advanced by the department have been expended for the purpose identified in the grant award and whether those expenditures are allowable costs based on the cost principles for the type of organization receiving funds. It is their intent to meet the federal monitoring requirements of OMB Circular A-133 and Agency of Administration Bulletin # 5.

## 2. Monitoring Universe and Selection Process

### Universe #1 – Periodic Monitoring

All schools/organizations (sub-recipients) that receive more than \$50,000 of federal funds from the Vermont Department of Education will be monitored once during a four-year cycle. Sub-recipients will be organized into four groups:

- Supervisory districts/unions \*
- Private non-profit organizations
- Higher Education Institutions

- State Agencies

\*When the department monitors a supervisory district/union, it will examine the use of federal funds that go to it and to any public school within that union/district either as direct grants from the department or as sub-grants from the supervisory union/district or other source.

Each year the department will conduct an on-site monitoring visit at approximately one quarter of the sub-recipients in each group. Monitoring will focus on those programs in these organizations not covered by a Single Audit. Sub-recipients will be selected for monitoring in any given year through the following steps.

Step#1 – Each year, all sub-recipients in each group will be put in the monitoring pool.

Step#2 – A number equal to 1/4 of all sub-recipients in each group will be selected from this pool for monitoring that year. Selection will be made by ranking sub-recipients in the pool by risk factors. The department's data base will be used to assess points to sub-recipients for the following risk factors.

- a) New sub-recipient with little or no experience in managing grants (Sub-recipients where persons in key leadership positions have changed will be viewed as new sub-recipients) – up to 3 points
- b) Sub-recipients whose audits or staff reviews have indicated problems with costs, lack of controls or a system to identify costs charged to the grants. – up to 4 points
- c) Sub-recipients that receive large amounts of federal funds – up to 3 points
- d) Sub-recipients that have not gone through a single audit recently – up to 4 points
- e) Sub-recipients that have not been monitored recently – up to 8 points.

Those assessed the highest points in the pool will be monitored that year.

#### Universe # 2 – Special Monitoring

In addition to those sub-recipients undergoing periodic monitoring will be those chosen for special monitoring. Special monitoring will focus on organizations at which the department has reason to believe that federal funds are not being expended appropriately or who themselves are concerned about their compliance status and request a monitoring visit. Sub-recipients and programs can be selected for special monitoring at the discretion of the Vermont Department of Education.

### **3. Sub-recipient Notification**

A sub-recipient selected for periodic or special monitoring will be notified of its selection at least one month in advance of the on-site monitoring visit. The department will communicate directly with the sub-recipient's CEO to establish an agreeable date for an on-site monitoring visit. At the same time, the sub-recipient will be given a monitoring liaison in the department with whom to work to prepare for the visit and will be given a list of the types of documents required to be available for the review.

Prior to the visit, the sub-recipient will be requested to complete and return to the department a Federal Grants Monitoring Cover Sheet. This will identify all federal grants advanced through the department and name the fiscal and program manager for each grant. The

department will verify that all federal grants have been identified and tailor its monitoring procedures to accommodate the control system/s of the sub-recipient.

#### **4. On-site Monitoring Procedures**

##### The Monitoring Team

The On-Site Monitoring Team will be composed of two to three people and will be led by the member assigned to serve as the liaison to the sub-recipient. Team members will begin the on-site visit with an interview with the sub-recipient's CEO to insure that he/she understands the nature and scope of the on-site monitoring visit and to collect institutional level information. Team members will make it clear that, unlike audits that focus on expenditures after the fiscal year has been completed, monitoring focuses on current year expenditures. As such, its goal is not to seek recovery of misused funds but to identify and resolve problems during the grant year in order to avoid future audit findings and penalties.

The team members will then meet with the fiscal and program managers for selected federal grants to review the procedures and documentation necessary to monitor the federal fiscal requirements identified in the Monitoring Checklist. Program and fiscal managers should arrange their schedules so that they can be available throughout the monitoring visit.

The Monitoring Checklist focuses on three areas of compliance:

- Internal controls are in place to ensure that costs are assigned and tracked against federal grants using a method to ensure compliance with federal requirements, that assets acquired are safeguarded, and that they are used solely for authorized purposes
- Expenditures of federal funds are in compliance with federal cost principles (principles identifying what can be funded and how it can be funded)
- Expenditures are in compliance with the sub-recipient's approved local plans.

##### Testing Method

In order to monitor current fiscal practices for compliance in these three areas, the team will use the following testing methods:

- Internal Controls – The team will examine written policies and procedures for grant management, procure accounting records for each federal grant, check property/equipment inventories and maintenance schedules, and justify the most current SDE 1.1 with grant balances and expenditures.
- Compliance with cost principles and local plans will be tested by examining outlays for the current fiscal quarter and the prior fiscal quarter (unless monitoring occurs in the first fiscal quarter of the year). Source documentation (purchase orders, invoices, cancelled checks, payrolls, time and attendance records) for randomly selected transactions under each grant will be reviewed to determine the nature of the expenditure and to establish its allowability. Specific outlays will also be reviewed to establish their consistency with the approved local plan. Team members will look at each grant and examine outlays under each of the following budget categories: personnel, contracts, property/equipment, operating, and, if applicable, sub-grants.

In examining the outlays, team members will look at such issues as:

- Is the expenditure a normal expenditure that should have been covered by non-grant funds?
- Does the contract indicate its purpose or the person hired is within the purpose of the grant?
- Does the work schedule for the individual indicate the time spent working on the cost objectives of the grant and on other cost objectives? Is it reported after-the-fact and signed by the individual?
- Are the costs allowable based on cost principles per OMB Circulars A-21, A-122 or A-87?
- Are the expenditures applicable to the period covered by the grant?
- Do expenditures reported in the SDE 1.1 agree with expenditures in the sub-recipient's ledger for the same period?

Team members will record compliance issues in the Monitoring Checklist and will enter each of the outlays monitored in the Expenditure Worksheet and its compliance status.

#### Exit Interview

The team's goal will be to complete on-site monitoring visits in two days. However, the number of grants, the number of sites, or the complexity of issues uncovered may extend the length of the visit. When the on-site monitoring has been completed, team members will conduct an oral exit interview with the CEO and anyone else he/she deems appropriate. Team members will identify areas of possible non-compliance and provide the opportunity for the submittal of further information or explanation to correct misperceptions or misinterpretations on their part.

## **5. Final Report & Corrective Actions**

#### Final Report

The Department of Education will issue a written final report of the findings of an on-site monitoring visit within 30 days after the completion of the visit. Program staff may be consulted during that period to clarify an issue or verify the accuracy of information collected during the review. When all issues are clarified, the department will send its findings to the sub-recipient in which findings of non-compliance will be identified. Findings of current non-compliance could be in one of three categories:

- a) Adequate internal controls are not in place
- b) Sufficient source documentation is not in place to justify an outlay
- c) Specific outlays are not allowable under cost principles or do not meet the purpose of the grant.

#### Corrective Action Plan

Once the sub-recipient has received the Final Report of the On-Site Monitoring Visit, it has thirty (30) days to respond to findings of non-compliance. In its response, it can challenge the findings by submitting material that demonstrates the inaccuracy of the finding. When it concurs that a finding of non-compliance is correct, it needs to file a corrective action plan.

The sub-recipient may work with its visit liaison to obtain help from the department in formulating adequate corrective actions. A corrective action must be created for each finding and result in bringing the sub-recipient into full compliance. The nature of the corrective action will relate back to the category of the finding.

- a) When there are weaknesses in internal controls, policies and/or procedures will be developed and implemented and accounting records will be brought into compliance with approved budgets.
- b) When sufficient source documentation is not in place, such documentation will be put into place or the outlay will be determined to be disallowable.
- c) When specific outlays are determined to be disallowable under costs principles or the purposes of the grant, the sub-recipient must submit a revised SDE 1.1 reducing the cost to the program and the sub-recipient must submit documents indicating those costs have been transferred and paid using non-grant funds.

Corrective actions will identify:

- The action to be taken to bring each cited item into compliance and to keep the problem from reoccurring
- Who will be responsible for the action
- When it will be completed.

When the department is satisfied that the proposed corrective actions will be successful in resolving all problems, the liaison will notify the sub-recipient that it has an approved corrective action plan.

Corrective actions must be completed before the current fiscal year is closed out. After the date on which corrective actions were to be completed, the liaison will either schedule a follow-up visit to verify that the actions have been carried out and that they were successful in resolving problems or will arrange for an alternate way for the sub-recipient to demonstrate that effective corrective actions have been completed.

#### Possible Penalties

The imposition of penalties for non-compliance with federal requirements will be a last resort. The main objective of the monitoring system is to assist sub-recipients in creating sound grant management systems. However, federal law requires that the department take action if its sub-recipients do not comply with federal requirements.

1. Failure to resolve issues, refund disallowed costs or supply adequate documentation to support costs charged to grants will result in a warning that funds may be suspended until the requirement is met.
2. Continued failure to resolve issues, refund disallowed costs or supply adequate documentation will result in fund suspension until the requirement is met.

## **6. Who to Contact**

As stated initially, the purposes of Federal Grants Monitoring are:

- To monitor sub-recipients' programs, especially those not covered by the Single Audit, to ensure compliance
- To identify and help resolve compliance problems surrounding sub-recipient's current uses of funds in order to avoid audit findings and possible penalties after the end of the fiscal year.

Conducting on-site monitoring visits is only one method of addressing these purposes. The Federal Fiscal Services Unit is also committed to providing the training and technical assistance that its sub-recipients request to improve their grants management systems. For more information on this monitoring system or to request assistance, please call:

Charles Stander  
Federal Fiscal Services Unit  
Vermont Department of Education  
120 State Street  
Montpelier, VT 05620

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